

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE NAMAKWA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Namakwa District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (GRAP) as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2010, and its financial performance and cash flows for the year then ended, in accordance with the Statements of GRAP and in the manner required by the MFMA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

9. As set out in note 35.1 to the financial statements, a liability of R15 362 930 relating to non-current employee benefits that were previously not recognised due to the municipality opting to take advantage of the transitional provisions per Directive 4, has now been recognised.
10. As set out in note 35.2 to the financial statements, an error of R426 906 relating to property, plant and equipment not previously recognised has been corrected.
11. As set out in note 35.3 to the financial statements, an error of R1 384 615 relating to intangible assets not previously recognised has been corrected.
12. As set out in note 35.4 to the financial statements, an error of R2 787 577 relating to agency services on behalf of the Department of Transport not previously recognised has been corrected.
13. As set out in note 35.5 and note 35.6 to the financial statements, an error of R72 915 has been corrected relating to the incorrect disclosure of unspent Working for Water funds as unspent conditional grants.

Irregular expenditure

14. As disclosed in note 41.3 to the financial statements, irregular expenditure of R312 928 was incurred due to non-compliance with the supply chain management prescripts of the municipality.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary schedules

16. The supplementary information set out in appendices A to F does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), Municipal Regulations, Municipal

Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

18. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

19. The integrated development plan of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA.
20. The integrated development plan of the municipality did not include a financial plan that included a budget projection for at least three years, as required by section 26(h) of the MSA.
21. The municipality did not appoint a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.
22. The performance management system of the municipality did not relate to the municipality's employee performance management processes, as required by regulation 7(1)(f) of the Municipal Planning and Performance Management Regulations, 2001.
23. The municipality did not establish mechanisms to monitor and review its performance management system during the financial year, as required by section 40 of the MSA.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable and time bound?

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

24. The municipality did not report on its performance against predetermined targets, which were consistent with the approved integrated development plan.

Planned and reported performance targets not specific or measurable

25. For the selected objective, more than 50% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance or

measurable in identifying the required performance.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- **Validity:** Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- **Accuracy:** Have amounts, numbers and other data relating to reported actual performance been recorded and reported appropriately?
- **Completeness:** Have all actual results and events that should have been recorded been included in the reported performance information?

The following audit findings relate to the above criteria:

Planned and reported indicators or measures not verifiable

26. For the selected objectives, more than 50% of the planned and reported indicators were not verifiable, as it was not possible to validate the processes and systems that produced the indicator.

Reported targets not reliable as inadequate supporting source information was provided

27. For the selected objective, the validity, accuracy and completeness of more than 50% of the reported targets could not be established, as sufficient appropriate audit evidence or relevant source documentation could not be provided for audit purposes.

Compliance with laws and regulations

Municipal Finance Management Act

28. Contrary to the requirements of section 17(1) and (2) of the MFMA, the municipal budget did not disclose projected capital expenditure for the two financial years following the budget year.
29. Contrary to the requirements of section 62(1)(c)(i) of the MFMA, the accounting officer did not take all reasonable steps to ensure that the municipality had and maintained effective, efficient and transparent systems of financial and risk management and internal control.
30. Contrary to the requirements of section 64(2)(a) of the MFMA, the accounting officer did not ensure that the municipality had effective revenue-collection systems, as no effective action had been taken to recover long-outstanding debtor accounts amounting to at least R2 786 764.
31. Contrary to section 64(2)(g) of the MFMA, the accounting officer did not ensure that the municipality charged interest on all long-outstanding debts.
32. Contrary to section 65(2)(e) of the MFMA, the municipality did not pay money owing by the municipality within 30 days of receiving the relevant invoice or statement.
33. Contrary to the requirements of section 166(1) of the MFMA, the municipality did not

establish an audit committee during the financial year.

34. Contrary to the requirements of section 165(2) of the MFMA, the internal audit unit did not adequately advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal control, accounting procedures and practices, risk and risk management as well as compliance with the MFMA, the annual DoRA and any other applicable legislation. Furthermore, the internal audit unit was not independent from the operational management structure of the municipality and did not perform its work in accordance with prescribed internal audit standards.

Municipal Systems Act

35. Contrary to the requirements of section 53 of the MSA, the roles and responsibilities of political office-bearers in relation to the appointment of staff within the municipality were not clearly defined.
36. Contrary to the requirements of section 57 of the MSA, no performance agreements were entered into with the municipal manager or the managers directly accountable to the municipal manager.
37. Contrary to the requirements of section 67(1) of the MSA, the municipality did not have an approved selection and recruitment policy.

Construction Industry Development Board Act of South Africa, 2000 (Act No. 38 of 2000)

38. Contrary to the requirements of section 18(1) of this act, construction contracts to the value of R794 457 were awarded to contractors who were not registered with the Construction Industry Development Board.

INTERNAL CONTROL

39. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA, DoRA, Municipal Regulations, MSA and Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.
40. The matters reported below are limited to the deficiencies identified on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

41. A number of audit findings relating to material non-compliance with the provisions of the MFMA and the MSA were identified. The instances of non-compliance occurred due to the fact that the mayor and the accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations. A direct contributing factor was the suspension of the municipal manager and the chief financial officer during the year.

Financial and performance management

42. A number of audit findings relating to the absence of required information as well as misstatements in the financial statements were identified. Misstatements identified were due to the following:
 - The entity did not have individuals who fully understood the GRAP financial reporting framework and performance management requirements.

- Pertinent information was not identified and captured in a form and time frame to support financial and performance reporting.
- The financial statements and other information to be included in the annual report were not reviewed for completeness and accuracy prior to submission for auditing.

Governance

43. The municipality did not have adequate processes for risk identification and risk management.
44. The municipality did not have adequate processes for fraud prevention and detection.
45. The internal audit unit did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice and standards.
46. The municipality did not establish an audit committee that promoted independent accountability and service delivery.

Auditor-General

Kimberley

22 December 2010



AUDITOR - GENERAL
SOUTH AFRICA

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